

19-9-2008

Global markets in turmoil what next

Over the weekend there have been dramatic changes in the financial markets worldwide. Things have changed overnight and banks and major financial institutions find themselves not in a spot of bother but completely in disarray. Lehman Brothers has filed for bankruptcy, Merrill Lynch has been taken over by Bank of America and AIG had to be bailed out by the Federal for 80 billion \$. Where does all this leave us in India and should we really worry about these events?

The answer is yes and no

These are not small institutions that are getting wound up or closing down, institutions that have been in existence for decades and centuries. The employees get laid off, many of them who will be without the job for some time and in case they have been living on a monthly basis then you will start having defaults on their loans too in India. Other companies facing problems in their home turf will cut their exposure to newer markets like India, stop the expansion plans they had, may stop loss making ventures immediately, lay off employees who have been taken on exorbitant salaries much more than their worth, not offer pay rises or give them a choice of lower salary or no job.

These are periods of crisis but money is created by people who make use of these opportunities. I am not at all saying that one should go ahead and just buy stocks left right centre. My point is that one has to patiently wade through times of turbulence and people who will survive this will be able to emerge much stronger and will be in a position to create a strong hold.

In terms of personal financial planning where does all this leave us as normal middle class investors. These are the kind of events that shakes our confidence in the stock markets, the regulators and related entities. But I would like to stress a point here that if one has really done financial planning to the core then he has no need to worry since he has provision of around 6 months – 1 year as emergency to meet his expenses. His asset allocation makes sure that he is investing in the markets even now. I don't know whether to call this a bottom or not but please remember that since you are not having a look at your portfolios now on a daily basis you will make more money in the future than previously. As our customers we have always stressed the need for complete financial planning to all of you and we would like to stress this point again now. Please undertake the financial planning process since this not only ensures that you are in control of finances but also provides a complete picture to you and ensures that you know your current status and the reasons you are investing.

Please don't panic and be rest assured where we feel the person should be out of equities we are advising accordingly but if your goals are 5 years and more away please let your SIP's run as they are. The best thing in this scenario is to let your SIP's run along and watch the best cartoon channel or a good comedy movie, spend a weekend with your kids instead of losing your sleep over the business channels. Continue investing since if you have planted a tree in your garden there could be some storms, hot weather, cold weather and after the plant has gone through all this it will be strong and will give you the best fruit. So let your tree of wealth weather these storms and believe me it will emerge stronger and will give the best fruits in any season then. We as

Indians have just seen a part of the wealth we can create and in these times we should make the most of it and sow seeds for better quality fruits.